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U.K. Ends Transition To EC With Many Conflicts Unresolved

By Marshall H. Cohen

Despite domestic resistance to loss of a "cheap food" policy and to high-cost EC farm policies, the United Kingdom has made it all the way to full membership in the European Community. At times the transition was difficult—as witnessed by the 1975 referendum on whether to remain in the EC. But the country now appears determined to play a leading role in the EC and to have a strong voice in future policy decisions.

On January 1, the United Kingdom completed the final stage of transition to full membership in the European Community (EC) without having overcome many of the complex dilemmas existing both prior to EC membership and during the transition to membership. These have included the problem of balancing consumer and farm interests, coping with serious economic difficulties, and achieving national farm goals while integrating policy with the rigid requirements of the Community's Common Agricultural Policy (CAP).

When the United Kingdom began the transition process in 1973, agricultural authorities were expecting several irreversible benefits from full membership in the Community. For example, higher prices for grain, beef cattle, and hogs would encourage expansion of output, lessening the necessity for expensive imports. And although the United Kingdom is only approximately 50 percent self-sufficient in agricultural products, its exports of beef, barley, and even lamb and mutton (although the United Kingdom is a net importer) were expected to find expanded markets within the Community.

Politically, the British throughout the postwar period supported direct participation in an expanded European trade bloc and viewed their membership in the European Free Trade Association (EFTA) from 1960 to the end of 1972 as only a steppingstone to EC membership.

Although public opinion polls in mid-1977 indicated growing popular discontent with U.K. membership in the EC, a majority of the electorate favored membership both prior to the start of the transition period in 1973 and again in a public referendum in 1975. And even though leaders are seeking reforms within the EC, there are no indications that Britain wants to leave the EC. This would mean dropping out of a customs union on the Continent—Britain's major market region, particularly for industrial products—and returning to a system of national, rather than supranational, policies.

Membership in the EC required the United Kingdom to gradually overhaul its previous agricultural policy of making cheap food available to consumers. This policy involved encouraging food imports at the then relatively low world prices and supporting farmers via guaranteed prices—so-called deficiency payments—paid by the U.K. Treasury after determining farm costs. This procedure was abolished for all commodities except sheepmeat, potatoes, and milk (the EC has permitted nationally determined guaranteed prices for these products in the United Kingdom) when the United Kingdom adopted the Community's CAP and its arrangements for high agricultural supports.

Adjustment to the new arrangements during a period of rising production costs resulted in a severe loss of confidence in the farm sector and revealed major conflicts of interest between the United Kingdom and the EC—particularly during the recent decline in the U.K. economy. Despite the closing of the transition period, these problems continue.

Throughout the transition period, the United Kingdom continued its long-standing role as one of the world's top importers of farm products, taking over $900 million worth of U.S. farm exports alone in fiscal 1977. And although the EC share of U.K. agricultural imports has trended higher since membership began, both U.K. consumers and producers have expressed dissatisfaction with many Community policies.

Farmers have not shared the same market protection as those in many EC partners, since full EC prices were not available to U.K. farmers during the transition period.

Consumers, on the other hand, have complained about sharp advances in many retail food prices, reflecting in large part the abnormally high world commodity prices during most of the transition period. Technically, the application of compensatory payments (such as Accession Compensatory Amounts or ACA's), which gradually adjusted British prices to higher EC levels for CAP-regulated products, would have created even greater pressure on retail prices. But they were largely neutralized by monetary compensatory payments, particularly for products imported from EC partners.

Yet at various times during the transition, many British farmers saw their margins erode as agricultural input prices rose faster than farm prices, especially in the beef, dairy, and pork sectors.

For example, U.K. beef profits in 1974 declined sharply, reflecting high feed and other input costs plus lack of protection from intervention. To keep consumer prices down, the United Kingdom had opted not to apply the EC system of beef intervention. But since costs were high and

The author is an agricultural economist with the Foreign Demand and Competition Division, Economics, Statistics, and Cooperatives Service.

An all-purpose food store in Stratford, England. Rising food prices have been a thorny issue with British consumers in recent years, despite several consumer food subsidies allowed during the United Kingdom's transition to EC membership.

market prices relatively low, this resulted in higher cow slaughter.

To restore the cattle market, the EC—under strong pressure—permitted the United Kingdom to reimpose a system of guaranteed producer prices for beef similar to the earlier deficiency payment system. In other words, if market prices fall below the guaranteed price, the difference is made up by a variable premium. This system operates to keep retail prices down when supplies are plentiful, while supporting producer returns and avoiding the costs of expensive intervention storage.

The guaranteed price is based on a U.K. target price that may vary weekly with changes in the market. It remains in effect, although the likelihood that beef intervention will be used increased in recent months, when product prices fell while payments to farmers approached upper limits. Nonetheless, growth in beef production in the long run is likely to come from the expanding dairy herd since declines are expected in the beef herd.

Dairy farmers also saw their profits strained during 1974-76. High world prices for feeds and fuel pushed up input costs, while serious droughts in 1975 and 1976 reduced domestic feed supplies.

The situation would not have been so drastic had the higher EC prices been immediately available to farmers. But in the face of the deteriorating situation, dairy cow slaughter rose to unusually high levels in 1974 and 1975 and led to a curtailment of butter production during 1975. The resulting U.K. dairy product shortage led to large imports of butter from other EC members—even in good years only about 20 percent of U.K. butter supplies are home produced—thus relieving the EC of some of its butter surplus. Also, under agreements with the EC, the United Kingdom may receive a quota of 125,000 tons, 120,000, and 115,000 tons of New Zealand butter in 1978, 1979, and 1980, respectively. Despite opposition from the U.K. dairy industry, the EC agreed to raise the 1978 price for New Zealand butter by 10 percent.

More recently, British pork producers have complained about sagging profits, which have become a chronic problem in the face of a continuing cost/price squeeze and shrinking British consumption of bacon. Reflecting these difficulties, the number of farmers with breeding pigs declined by about one-third between 1973 and 1976.

Pork producers also have become increasingly distressed over high Monetary Compensatory Amounts (MCA's), or border charges intended to neutralize fluctuations in prices from one EC country to another caused by differences in exchange rates. These MCA's subsidized British bacon imports from the rest of the EC (mainly Denmark)—helping to hold down consumer prices—at the expense of domestic producers. A temporary subsidy to ease the plight of those producers was imposed by U.K. officials in January 1977, but terminated in June 1977 after EC determination that it was illegal.

To strengthen farm prices, British farmers have pressed for adjustment of the MCA calculation so that it is based not on pigmeat, but the grain going into it—as

it is with poultry.

Many of the conflicts between the United Kingdom and the rest of the EC have been due to the poor health of the U.K. economy and the depreciation of the pound sterling. Although economic crises such as high inflation, unemployment, and balance of payment deficits have occurred regularly in the United Kingdom, particularly since the 1950's, new problems affecting the farm sector have arisen since membership began.

Real GNP growth rates in the United Kingdom have been very sluggish since 1973, mainly because of relatively poor performance of export industries. Partly, this development reflected a global recession in the mid-1970's, which resulted in reduced demand for British goods. But the United Kingdom also failed to share in the global economic recovery of 1976, recording a growth of only 1 percent, compared with an average of 5 percent for all OECD (Organization for Economic Cooperation and Development) countries and 6.25 percent for the United States.

"Adjustment to the new arrangement during a period of rising production costs resulted in a severe loss of confidence in the farm sector and revealed major conflicts of interest between the United Kingdom and the EC. . . ."

Rapid inflation, high external trade deficits, and a large public debt are among the major economic problems to which policy priorities have been geared. As of April 1977, for instance, the United Kingdom's foreign indebtedness totaled $11.5 billion. The scheduled repayment of this debt over 10 years beginning in 1977 is a burden on the economy. Policymakers have attacked spiraling inflation—reaching nearly 30 percent in 1975—with wage controls and in 1977 recommended a 10 percent ceiling on wage increases so as to hold inflation to single digits.

Such measures appear finally to be having a positive effect. Preliminary data for 1977 indicate a mild improvement in the economy and a growth of about 1.5 percent in real gross national product. Moreover, the increased flow of North Sea oil into the United Kingdom is expected to produce ongoing balance-of-payments benefits.

The pound sterling also strengthened in 1977, reaching almost $2.00 in the first week of January 1978, compared with a record low of $1.57 on October 28, 1976.

The pay restraint programs appear to have held inflation in 1977 to less than 10 percent. However, some groups of wage earners—including farmworkers—have pressed for increases above the 10 percent guidelines for 1978, suggesting that 1978 may realize recurring inflationary pressures.

One of the major dilemmas facing policymakers in the United Kingdom is the difficulty of satisfying both farmer and consumer interests. The farmer, of course, wants to ensure profits to cover increasing costs and to pay off capital investments. The consumer wants a lowering of food prices, which in recent years have increased more than other items in the retail price index. The Government desires to hold down food retail prices and inflation and reduce the severe balance of payments deficits, particularly in relation to costs of importing food.

One difficulty in reconciling these goals has been the depreciation of the pound sterling. Farmers have complained that since farm prices are set in units of account and then converted to commercial sterling by applying a so-called green rate of exchange, they do not receive a fair market value when commercial sterling depreciates.

The Government has devalued the green pound about five times in recent years, thereby automatically raising farm prices, but hesitates to devalue further at a time when curbing inflation is a high priority.

Moreover, the monetary compensatory amounts used to equalize differences in national currencies between EC countries have acted as import subsidies in the United Kingdom. These MCA's do keep down food prices somewhat in the United Kingdom, since they are reimbursed to traders from EC funds, but simultaneously discourage British farmers from expanding production.

EC proposals to phase out the MCA program over a 7-year period have been discussed, with the British pressing to link MCA reform to a reduction in high EC farm prices as well as to monetary reforms dealing with the unit of account. However, no agreements were reached in 1977.

The EC Commission wants to bring farm prices in member countries to a common level, compared with the present arrangement whereby real farm prices in the United Kingdom are over one-third below those in West Germany. To achieve this goal, the Commission has been trying to realine green rates and has proposed that the United Kingdom devalue by 3.25 percent in 1978.

This level may be palatable to U.K. Minister of Agriculture John Silkin, who has heatedly opposed past proposals for greater devaluations because of their inflationary effect.

The United Kingdom prefers that EC Member States have control over the adjustment of the green rate and the market rate. A further devaluation of the U.K. green rate would re-

duce the MCA burden on the EC, but result in price hikes in the United Kingdom.

The U.K. position vis-a-vis EC farm policy generally has been to hold down EC farm prices and limit incentives for producing costly surpluses, whose disposition is inevitably financed via contributions from Member States. (The proposed EC farm price increase for 1978, at 2-3 percent, is among the lowest ever recommended.) The desire by the British to hold down, or even temporarily freeze, EC prices reflects a trend toward consumerism in the United Kingdom and the political importance of consumer groups anxious to keep food prices from rising.

As a partner in the expanded EC, the United Kingdom must adhere to policy decisions made by the EC Council, since all independent national policy actions must be approved by the EC. However, a few remaining independent policy areas have been permitted.

As mentioned, guaranteed prices for sheepmeat, potatoes, and milk have been permitted in the United Kingdom. Also, subsidies to farmers subjected to regional farming disadvantages, such as in the northern hills, are independently allocated by the United Kingdom.

Another area of contention between the United Kingdom and the Community has been the retention of nationally managed marketings boards. Under present EC law, such boards are illegal since they undermine the price-setting function of the CAP. At present, marketing boards with monopoly power operate in the United Kingdom for milk, potatoes, wool, and hops. The Milk Marketing Board, most important of these, is largely a producers' body that sets milk prices within Government-specified parameters and acts as the sole buyer of milk (except for certain export groups).

Discussions have been in progress as to the future of boards, since under the EC Treaty of Accession, U.K. guaranteed price arrangements for milk producers ended January 1, 1978. Earlier indications were that the EC might amend its rules allowing the Board to continue in light of the united front of farmers, consumers, unions, and consumer organizations for continuing traditional methods of U.K. milk marketing.

A further concern is how to achieve national targets for raising food output and self-sufficiency. In 1975, the Government published a white paper, "Food From Our Own Resources," a statement of intent to expand output of milk, beef, oilseeds, pork, mutton, sugar, and—to a lesser extent—grains. (*Foreign Agriculture*, Nov. 7, 1975). Increased output was to result in import savings of about $1.2 billion by 1980. However, this growth so far has not been realized, owing to uncontrollable events, such as serious droughts, as well as an erosion of farmer confidence because of economic and other factors.

Of course, Government policy must be carried out within the framework of the EC. Therefore, certain national declarations to expand output have been frustrated by some EC policies.

For example, the report envisaged a substantial increase in milk production, and higher milk yields have resulted in record output of fluid milk in recent years. But the EC, in contrast, has implemented programs to reduce very expensive dairy surpluses and hold back dairy expansion. The majority of applicants to EC programs in the United Kingdom have been farmers with small dairy herds.

Other EC-wide programs, such as marketing fees or "coresponsibility levies" paid by U.K. farmers through the milk producing boards for EC dairy product promotion, put additional financial pressure on marginal farmers to reduce herds. Also, other EC programs to reduce dairying have been financially attractive. Consequently, it has been estimated that U.K. dairy cow numbers which have declined in recent years, could be reduced further in 1977/78.

The White Paper's proposed 1980 target for U.K. sugarbeet production of 9.45 million tons (output was 5 million tons in 1976) also seems inconsistent with EC interests. After 3 years of poor beet crops, the EC expects an exportable surplus of 3.3 million tons in 1977/78.

The United Kingdom, which is about one-third self-sufficient in sugar, imports the bulk of its refined sugar from EC partners. Raw sugar is supplied under quota arrangements with the African, Caribbean, and Pacific (ACP) countries, largely Mauritius. Sugar quotas apply to imports under EC regulations negotiated in the Lomé Convention.

Throughout transition, opponents of British membership in the EC frequently argued that membership resulted in high food prices in the United Kingdom owing to the automatic hike in farm prices and the EC tariff protection.

To determine the effect of EC membership on British food prices, a comprehensive analysis was undertaken —*The CAP and the British Consumer*, by the Federal Trust Study Group, London, in 1975. The conclusions of this report, based on the 1973-75 period, were that the cost of food in the United Kingdom was slightly lower than it would have been in the absence of CAP arrangements, owing to:

- The MCA's, which had offset some effects of sterling depreciation; and
- The ACA's, which prevented prices from moving too fast toward EC levels.

Also, other world prices for many key commodities were above EC levels, and the introduction of export taxes, plus EC or national consumer subsidies on dairy products (the U.K. butter subsidy was phased out in 1976 and will be replaced by an EC-wide program in 1978), reportedly kept the retail cost of food down.

Now that the United Kingdom has become a full member in an economic sense, it is likely to continue to press for reform of the CAP. As British Prime Minister James Callaghan recently pronounced, "We should work to develop a 4-year structural plan to secure a substantial reduction in surpluses and to maintain restraint on prices . . . . world prices must be taken more fully into consideration and greater scope given to competitive imports . . . especially from developing countries.

"The United Kingdom's agricultural production should be selectively expanded. Action on prices must be knitted into a coordinated program of measures to tackle the problem of surplus production including appropriate measures designed to improve the general level of efficiency . . . Some responsibility for subsidizing the incomes of inefficient producers should shift from the Community or the consumer to national governments. Special measures will be needed on the part of national governments or the Community to safeguard certain forms of agriculture for particular social or regional purposes." □

Key to Ecuador's Agricultural Growth Is Coastal Sector

Ecuador's current economic development is almost totally dependent on petroleum, which represents approximately half of the country's foreign exchange earnings, has fueled increased mechanization and has boosted incomes and demand for agricultural imports. However, petroleum reserves may not last much more than 10 years.

What will Ecuador do then? C. Milton Anderson, former U.S. Agricultural Attaché in Quito, in a recent interview with *Foreign Agriculture*, emphasized that the long-term key to Ecuador's economic development and wealth lies in using oil revenues to develop the country's agricultural sector, particularly areas along the coast in the northwest part of the country, where crop potential has barely been scratched.

The thrust of Ecuador's current economic development began in 1972, when the country started exporting petroleum. In calendar 1977, the value of this export will approximate $500 million, although the growth rate of the value of exports has slowed somewhat compared with that of the past few years.

Petroleum revenues have had a healthy effect on Ecuador's international monetary reserves and trade balance. But excessive imports in 1975 brought about balance-of-payments problems. To correct the imbalance, the Ecuadorean Government instituted a series of import controls, such as surcharges and prior-deposit requirements on many imports.

Improvement by 1976 led the Government to begin easing controls. Whether these restrictions will be reduced further depends on the balance between Ecuador's exports and imports.

In his 4½ years in Ecuador, Anderson saw considerable change in Ecuador as a result of petroleum wealth, particularly in the agricultural sector.

"Because of oil exports and oil wealth," said Anderson, "agricultural labor is less available than it was a few years ago, going instead to the construction industry in the cities."

For Ecuador, a country where main export crops are labor-intensive, such as coffee, cocoa, sugar, and bananas, a plentiful supply of agricultural labor is important.

Another change has been rising demand for agricultural commodities, particularly among the urban population. "The Ecuadoreans are eating more and they are eating better than they did in the rural areas," said Anderson. "And there has been some upgrading in the quality of the food that they demand. If Ecuador cannot produce increased quantities, the food will have to be imported—to the degree that the Government allows these imports to take place." Among these items are wheat, vegetable oils, and dairy products such as nonfat dry milk.

"Ecuador is self-sufficient in nearly all commodities, but certainly not in wheat, edible oils, and milk," said Anderson. "And I think the Government has come to the conclusion that it is impossible for the country to raise enough wheat for domestic purposes. Over the past year, other grains—corn, barley, oats, and sorghum—have also been in deficit supply, requiring imports to fill needs.

"In terms of overall food production," Anderson added, "Ecuador has the potential in certain crop areas, including rice. Whether Ecuador's food production can keep pace with the country's 3.4-percent annual population growth is difficult to predict. I don't foresee the country getting ahead of it very quickly, except in the case of rice."

The United States is Ecuador's main trading partner—accounting for 85-90 percent of the market share. Ecuador purchases roughly $60 million worth of farm products annually. Principal U.S. exports to Ecuador are wheat (which accounts for over half of Ecuador's total agricultural trade), vegetable oils (particularly soybean oil), unmanufactured tobacco, corn, sorghum, tallow, and—as transshipments—palm and coconut oils.

Ecuador still maintains a policy of surcharges and prior-deposit requirements on most import items, although there has been some liberalization or reduction in some of these restrictions as the country's balance of trade has improved, said Anderson.

Asked whether Ecuador is planning for a time when petroleum exports will dwindle or be nonexistent, Anderson said he was not aware that Ecuador has any long-range investment plans for the post-petroleum period. "In practical terms," said Anderson, "I don't think they have progressed very far down that road."

According to Anderson, over a period of years Ecuador has depended on the export of a variety of commodities to provide foreign exchange earnings. Currently Ecuador depends on petroleum; prior to that, bananas, cocoa, and rice were at times leading items. The country's attitude toward future economic growth is to adopt a wait-and-see policy.

Anderson feels Ecuador should use its current petroleum revenues to develop the agricultural sector—more specifically, the coastal region.

"There is a limit to the agricultural wealth of Ecuador," said Anderson. "The only area of the country that really has great potential is the coastal sector. The highland region has already seen its greatest development, and although there is room for improving productivity, the agricultural output of that region likely will deteriorate in the future. And the third sector—or Oriente—is a jungle area that can be developed only for a few crops. Investment in this area may come too late to feed the growing population and to provide foreign exchange by the time current

By Lynn Krawczyk, staff writer, Foreign Agriculture.

Unloading cattle from a riverboat at the docks of the municipal slaughterhouse at the port of Guayaquil, Ecuador. Recently, international funds for importation of livestock have not been available.

supplies of petroleum run out.

"Development of the coastal region, however, is dependent on moving water from surplus to deficit areas, which is a long-term and costly proposition," Anderson pointed out.

One of the best crops for this area would be rice—a crop on which Ecuador may be able to depend on increasingly for domestic consumption and/or export in the next few years. There is also the possibility that sugarcane, cocoa, coffee, and other food crop output could be expanded in this coastal region if it were irrigated and efficiently managed.

The food processing industry is still in an early developmental stage, but fairly rapid growth is underway, in response to growing consumer demand for processed foods. The most highly developed food industries in Ecuador currently process sugar, vegetable oils, cocoa, and fish. Among the newest projects being financed are a citrus packing plant, a rubber processing plant, and a meat processing facility.

Lack of adequate storage facilities, particularly for grains, will continue to be a major handicap to Ecuadorean agriculture, at least until some time in 1978. The Government has authorized the construction of 59,500 metric tons of warehouse and silo capacity, divided among eight locations on the coast.

The current shortage of storage facilities and the lack of an efficient marketing system continue to cause wide fluctuations in commodity prices and poor quality of products. Rice, corn, barley, and potatoes suffer most from lack of storage space. During 1976, for example, rice was exported at a substantial loss because of a lack of storage.

The Ministry of Agriculture also has invested in 12 Government-private industry enterprises, including alfalfa processing, seed production and processing, feed manufacturing, poultry raising, and mixed fertilizers.

In addition, the Ecuadorian Government is pursuing rather ambitious goals for developing the country's irrigation potential, particularly in the Guayas River Basin and in Manabí Province.

In the foreign trade sector, Ecuador will continue its already considerable efforts to find new markets for processed and unprocessed agricultural products and hold or expand established markets.

The Export Promotion Fund (FOREX) will be used increasingly to promote export sales and as a source of financing for such sales. With some success in export expansion and the already favorable balance of trade, some reduction in the existing level of import restrictions also seems likely.

Anderson believes that opportunities lie in Ecuador's export crop sector. There have been some increases in coffee, cocoa, and sugar production in recent years. There is also great production potential for bananas, but depending on expansion and development of markets.

Ecuador is the world's largest exporter of bananas, but in recent years has lost a big share of its Far Eastern banana market—particularly Japan—to Taiwanese and Philippine exporters. This has led to increased replacement of banana areas by cocoa and edible oilseeds. □

Slow Growth Marks Canadian Agriculture

By C. E. Bray

Increased pork production, reduced cattle slaughter, possible expansion in Durum wheat area, and further declines in farm income are seen for Canada in 1978, according to the prognoses at the Canadian Agricultural Outlook Conference, held in Ottawa in mid-December 1977. In general, 1977 was seen as a sluggish year for Canadian agriculture.

The slow growth of the nation's economy and the decline of the Canadian dollar formed the background to the analysis of farm production and export prospects in the coming year. The estimated increase of the real Gross National Product was only about 2 percent in 1977.

Major factors contributing to this sluggish performance were given as: Low prices for exports, especially wheat, wood pulp, and metals; deterioration in Canada's competitiveness on world markets because of high internal inflation and increased labor costs; and loss of confidence in the economy by consumers and investors as indicated by declines in consumer spending and business investments in plant and equipment.

The rate of inflation as measured by the Consumer Price Index (CPI) slowed somewhat from the double-digit rate experienced prior to the creation of the Canadian Price and Control Program in October 1975. The CPI for the first 3 quarters of 1977 was up 8 percent, compared with an 11 percent rise in the same 1975 period. Declines in nonfood prices were offset by increases in food prices.

Cited as a factor in the increased Canadian food prices were the substantial imports of U.S. fruits and vegetables, whose prices had risen because of severe winter weather in southern U.S. growing regions. Higher prices for coffee, beef, and pork also contributed to the increase.

There also has been a noticeable deceleration in increases in base wage rates under the Wage and Price Control Program. First-year increases in major wage settlements declined from 21 percent in 1975 to 7.8 percent during the first 3 quarters of 1977.

The Wage and Price Control Program will be phased out, beginning in April, and limitations on possible post-control increases in wages and prices will be a major focus for Canadian economic policy.

The recent decline in the value of the Canadian dollar (down to US$0.93 in the third quarter of 1977 from US$1.02 in the third quarter of 1976) is seen as a development that may significantly improve Canada's export position by reducing the cost of Canadian goods for importing countries. The export sector is expected to be the one area of growth in the Canadian economy.

Net farm income for 1977 was expected to decline about 11 percent to $3.25 billion,[1] primarily because of rising costs. Cash receipts were expected to drop slightly from 1976 levels. A 2 percent gain in receipts from livestock and products would be offset by a 5 percent loss in receipts from crop production. Farm costs for 1977 were expected to rise 7 percent to a record $7.78 billion, largely because of rising costs of farm labor and fuel.

Farmer Income To Drop

Farmer net income for 1978 is expected to decline again—about 6 percent from 1977's levels. Farm receipts may increase about 3 percent, but farm expenses will probably continue rising—an estimated 7 percent to about $8.3 billion. Although the cost of farm inputs was expected to increase in 1977 and 1978, there are indications that the rate of increase is slowing. Adequate supplies of farm inputs are predicted for 1978.

Expected low feedgrain prices will be the major determinant of developments in the livestock sector this year. After several years of declining output and high pork prices, Canadian hog and pork production was expected to be up in 1977. According to the Statistics Canada survey of October 1, 1977, hog numbers were up 8 percent from the same time a year earlier. Hog slaughter at the end of 1977 was expected to rise about 6-7 percent and continue increasing in the first half of 1978, jumping 6-8 percent above year-earlier levels.

As production expands, hog prices should decline and per capita pork consumption, which decreased substantially during the recent period of high pork prices, is expected to increase.

There has been a shift in Canadian hog production in recent years, according to the 1976 census. Hog production in western Canada has dropped dramatically in the recent downswing of the hog cycle. High grain prices in the Seventies have decreased incentives for Prairie farmers to produce hogs as a means to generate cash income from their crop production. As a result, eastern Canada now accounts for a much greater share of Canada's pork production. There is also evidence that as the number of hog producers has declined, the size of existing units has increased. The average number of pigs per farm rose from 66 to 91 between 1971 and 1976.

Canada exports pork to Japan under contract. In 1974, Canada became a net importer of pork from the United States because of the combined effect of export commitments and declining domestic production on pork supplies for domestic consumption. Since then, Canadian imports of U.S. pork have risen steadily. Canada may resume a more traditional trade relationship in pork with the United States in the next 3 years if contracts with Japan are not renewed. However, Canada probably will not return to a net exporter position until at least 1980.

In recent years, the cattle sector has been characterized by declining inventories, high slaughter rates,

The author is a foreign regional analyst, Foreign Demand and Competition Division, Economics, Statistics, and Cooperatives Service.

[1] **Unless specified, prices expressed are in Canadian dollars. The average Canadian dollar was US$0.9517 for the first 3 quarters of 1977 and US$1.0141 for 1976.**

and low prices. The forecast for the next 3 years is for a decline in cattle slaughter and rapidly rising prices.

The beef cow herd, which has decreased 11 percent since July 1975, is expected to continue declining in 1978, but at a slower rate. Cow slaughter, after rising on a year-to-year basis from the autumn of 1974 to the autumn of 1976, has been trending downward (with a few exceptions) each quarter since then. Cow slaughter would have to ease much more, however, before slaughter rates consistent with the cow herd buildup of the 1973/74 period are reached.

Recent declines in the steer slaughter rate indicate that steer slaughter peaked in the last half of 1976 and in the first half of 1977 and is now on the downswing. Heifer slaughter continued unabated in 1977. The easing of the beef cow and steer slaughter rates is expected to be reflected in a 4-6 percent decline in total cattle slaughter in 1978.

Lower feedgrain prices indicate that there will be increased feeding this year. Because of increased carcass weights, beef production should fall proportionately less than the cattle slaughter rate.

Canadian imports and exports of beef and veal were down during January-November 1977 from year-earlier levels. Canadian beef and veal imports for calendar 1977 were limited by a global quota to 66,000 metric tons, of which 11,000 tons were allotted to the United States, 27,000 to Australia, and 28,000 to New Zealand. By mid-November, the Australian quota was essentially filled and the New Zealand quota was 90 percent filled while imports of 6,000 tons from the United States were 55 percent of the quota.

Canadian beef and veal exports to the United States were limited to 36,200 tons during calendar 1977 and reached 98 percent of that level at 35,433 tons. The decline in the value of the Canadian dollar has made the price of Canadian slaughter cows relatively attractive to U.S. buyers, and exports to the United States had been heavy up to mid-November.

Through November, Canada's chicken slaughter was up 3.2 percent and stocks of chicken meat were down 23.2 percent from year-earlier levels. Imports of live U.S. chickens through November were estimated at 8,000 tons eviscerated weight—up 41 percent from a year earlier, while imports of eviscerated chicken at 7,900 tons were down 31 percent.

Forming New Agency

Currently, Canada is formulating a National Chicken Marketing Agency, whose development may affect production and trade in chickens this year. Without a marketing agency, domestic production in 1978 is now expected to be about the same as in 1977 and imports from the United States are expected to continue as a result of increases in U.S. production and declines in U.S. prices.

Turkey production is under a supply management program controlled by the Canadian Turkey Marketing Agency (CTMA). Buildups in turkey meat stocks and slumping consumption characterized 1977. Turkey slaughter, as of November, was 75,000 tons, up 6 percent from year-earlier levels, while turkey stocks were up 13 percent. The CTMA has reduced the turkey production quota from 94,000 tons last year to 87,000 tons this year.

Canada's 1977 egg production was estimated to rise about 8 percent, reflecting increases in the national laying flock. Imports of U.S. eggs were expected to remain near the basic quota of almost 200,000 boxes (15 dozen each) in 1977.

Egg Output Lowered

The Canadian Egg Marketing Agency (CEMA) has acted to lower production by ordering a 5 percent cutback in placements of pullet chicks on Canadian farms by January 1978. However, supplementary imports of U.S. eggs may become necessary as the effect of this reduction is felt in 1978's third quarter when demand for eggs reaches its peak.

The Canadian dairy sector, like the turkey and egg sectors, operates under a supply management program controlled primarily by the Canadian Dairy Commission (CDC). Milk production in 1977 was estimated at 7.7 million tons and the dairy herd at 1.9 million head (July 1, 1977)—about equal to 1976's levels. Butter production in 1977 was estimated at 111,000 tons, down 3 percent from that of 1976, while Cheddar cheese output rose to 79,000 tons.

Stocks of nonfat dry milk (NFDM) dropped 58 percent in 1977, reflecting an 85 percent jump in NFDM exports to 181,000 tons for the year and reduced butter output that lowered the supply of liquid skim milk for NFDM production.

The rise in NFDM exports was accompanied by increased exports of nonfat solids in other dairy products as a result of a new market strategy, called the Butterfat Exchange Program.

This program, introduced in the 1977 dairy year, is expected to reduce the financial losses incurred through the export of stockpiled NFDM. Under this program, Canadian butterfat—in the form of evaporated milk and whole milk powder—is exported and the equivalent amount of butterfat is imported in the form of butter bought at low world prices. This program is possible because the CDC can presently export evaporated milk and whole milk powder at prices higher than the price of imported butter.

No major changes in Canada's milk production levels were foreseen at the Outlook Conference. If an upturn becomes evident, however, adjustments may be made in supply management to tailor production to possibly declining demand.

Area planted to wheat declined 10 percent in 1977/78, from 11.2 million hectares to 10.1 million. Production is estimated at 19.6 million tons—17 percent less than the 1976/77 record crop of 23.6 million. Cold, wet weather during harvest significantly affected crop quality. In areas where the harvest took place before the onset of bad weather the crop was graded Canadian Western Red Spring (CWRS) No. 1 and No. 2. The crop harvested during or after the bad weather was graded CWRS No. 3, with considerable quantities of feed wheat.

Coarse-grain production (including Ontario-produced corn) reached about 21 million tons in 1977/78, up about 5 percent from the 1976/77 level as planted area rose slightly to 7.7 million hectares. Barley area was up 7 percent to 4.6 million hectares, corn area up 3 percent to 730,000 hectares, and oat area down 12 percent to 2.1 million hectares.

Wheat exports are expected to reach about 16 million tons in 1977/78 (August-July), gaining considerably from 13.5 million tons in 1976/77 because of

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Central American Cotton Crops Larger; 1977/78 Exports Up

Cotton growing on cleared jungle land in Guatemala's Tiquisate region near the Pacific coast.

Cotton crops in 1976/77 reached bumper proportions in some major Central American producing countries and were somewhat larger than recent crops in several others.

In 1976/77, Guatemala set domestic production and world yield records. Honduras, although one of the region's smaller producers, also harvested a record crop.

Exports from most of the Central American countries were generally larger in 1976/77 than those of the previous year. Present estimates indicate 1977/78 exports are greater than in 1976/77.

Guatemala's final production figure indicates 1976/77 was in every respect the best cotton year ever experienced by the country's growers. Almost perfect weather, the absence of disease, and higher than expected production from marginal lands resulted in a record outturn of 610,000 bales (480 lb net) and a yield of 5.76 bales per hectare, believed to be a world record. The 1976/77 crop was 33 percent larger than the previous year's outturn of 459,000 bales, while area was up a more modest 27 percent.

Because of last season's satisfactory cotton prices, farmers increased 1977/78 planted area to about 124,000 hectares, 16 percent greater than in 1976/77. Most of the additional area came from land switched from sorghum, rice, and cattle production to cotton, which has a larger profit margin.

Weather conditions for the 1977/78 crop have thus far generally followed the 1976 pattern, and even a slight falloff in precipitation earlier in the year failed to damage the plants. In fact, 1977/78 looks like another outstanding cotton year.

Guatemala's 1977/78 cotton crop estimate stands at 682,000 bales, based on a yield of 5.51 bales per hectare.

Guatemala's exports in 1976/77 reportedly were 540,000 bales, 21 percent higher than 1975/76 exports of 447,000 bales. As in the past, Japan was the leading importer, taking 188,000 bales, 34.8 percent of all cotton exports. The Republic of China was second with 84,000 bales and 15.6 percent, followed by India with 66,000 bales and 12.2 percent. Sales were made at a reported average price of US$1.39 per kilogram, for a total of $163 million.

Cotton handwoven materials produced by the Indian population have become important export items. In addition, U.S. denim and sportswear manufacturing firms have moved plants to Guatemala and are shipping finished products to the United States and European markets. In calendar 1976, Guatemala exported close to $10 million worth of textiles and garments.

El Salvador's 1976/77 outturn amounted to 322,000 bales from an area of 83,366 hectares. This compares with the previous year's production of 273,000 bales from 74,940 hectares. Yield per hectare rose from 3.64 bales in 1975/76 to 3.88 bales last season.

Salvadoran growers were concerned about the consequences of 1976's August/September drought, but late rains, lasting into December 1976, seem to have compensated for rainfall shortages during the growing period.

Based on Government data, area for 1977/78 is

Based on reports from U.S. Agricultural Attachés in Guatemala City and San Salvador.

estimated at 98,000 hectares and production at 350,000 bales. Weather conditions have been normal, except for the August drought. With the current availability of inputs at prices more favorable than in past years, input usage is likely to be considerable, with cotton output benefiting.

During crop year 1976/77, El Salvador exported 220,500 bales, compared with 321,000 bales the year before. El Salvador had entered 1975/76 with large cotton carryovers and as a result was able to make that year's extraordinarily large exports.

Japan was the largest buyer of Salvadoran cotton in 1976/77, taking 33,700 bales. Only three other countries took quantities of any significance: Spain, 27,400 bales; France, 22,600 bales; and the People's Republic of China, 19,800 bales. The remaining 10 countries had total purchases of 17,000 bales.

Set at 548,000 bales, **Nicaragua's** 1976/77 cotton crop was 7.4 percent larger than the previous year's; the area, at 199,000 hectares, was 39 percent greater.

This production level surprised many of Nicaragua's cotton tradesmen as severe drought from mid-July to late September 1976 had given rise to fears that outturn would be catastrophically small. However, the sizable area increased, coupled with late-season rains that lasted longer than normal, helped boost production to its present level. Paradoxically, although rains in past years had reduced quality and output, in this case the moisture helped cotton plants recover from the dry spell without significantly affecting quality. Despite the rise in production, the drought kept cotton yields at the lowest level reached in more than 10 years.

Because of high cotton prices prior to planting the 1977/78 crop, cotton land was in great demand and rents soared. However, with prices at their current levels, many farmers regret having rented cotton land on long-term arrangements.

An estimated 104,000 hectares were rented at an average of $106 per hectare, although in some instances rents for top-quality land in the Chinandega area soared to $400 per hectare. Some farmers now wonder if they will make enough from their 1977/78 cotton crops to recoup their investments.

All of Nicaragua's 1976/77 cotton has been sold and as of July 31, 1977, only 41,020 bales were thought to be in the country.

Honduras set a record by increasing its 1976/77 cotton area by 123 percent from 4,600 hectares to 10,300 and another by boosting production from 14,200 bales to 32,230. High world prices early in the season and some relaxation in Agrarian Reform Act limitations on land leasing almost tripled the number of growers from 127 to 328 and contributed to the year's record. In addition, fertilizer usage rose and utilization of insecticides by hand- and aerial-spraying kept insects in check.

The 1977/78 area planted to cotton is forecast at a record 16,800 hectares, with an expected production of 51,850 bales. A major farm cooperative is trying to get farmers to increase output even more. But since such a boost would require leasing of additional cotton land, the Agrarian Reform Act may be invoked to prevent these land transfers.

Honduras has exported all the cotton produced in 1976/77 but as of late September, by-country destinations were not available. □

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Canadian Outlook

sales to the People's Republic of China and the Soviet Union.

There is some evidence that Canadian wheat prices have been strengthening in recent months. The asking price for CWRS No. 1 (13.5 percent protein) was $3.71 per bushel in mid-November, compared with $3.00 in August.

Export movements of feedgrains in 1977/78 have been slow and are not expected to exceed 4 million tons. Feedgrain prices have been below year-earlier levels and are not likely to improve significantly because of the large U.S. corn crop and supplies of feed wheat in Canada.

Buildups in feedgrain stocks are expected in 1977/78, but wheat stocks are expected to be drawn down to about 11 million tons as a result of the large exports. It is anticipated that Durum supplies will be completely depleted by 1977/78 exports, and high quality Red Spring wheat supplies will have to come from 1978/79 production. Because prices and demand look more favorable for wheat than for feedgrains, expansion of wheat area, particularly Durum, may occur in 1978/79. However, reductions in barley area are not recommended because of the need to maintain exports and adequate domestic supplies.

Area planted to oilseeds expanded significantly in 1977/78 after the cutbacks in 1976/77. Rapeseed area increased 87 percent to 1.3 million hectares, while production more than doubled to 1.8 million tons. Rapeseed exports in 1977/78 are expected to be about 800,000 tons—down from 1976/77 levels. Prices will probably favor rapeseed over coarse grains; thus area planted to rapeseed in 1978/79 may increase.

Soybean production also more than doubled to 517,000 tons from an expanded area of 202,000 hectares. Despite large supplies and lower prices, Canadian soybean plantings are expected to be larger in 1978/79. Ontario soybean growers believe they have a small but potentially expanding market for food purposes in Japan, and the Canadian/U.S. dollar exchange rate is expected to make imports of U.S. soybeans more expensive. □

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UAE Produce Output Climbs But Imports Still Rising

In Abu Dhabi, the richest of the seven United Arab Emirates (UAE),[1] programs fueled by petroleum revenues have boosted fruit and vegetable production throughout the entire country. But despite increased output, imports of fresh produce—particularly from Saudi Arabia and India—are still rising.

Cropland in the UAE has spread dramatically in the past few years. In Abu Dhabi, for example, only 14,000 hectares were available in 1973. Irrigation facilities, free seed, fertilizer, and farm machinery, as well as elaborate projects using desalinized water have since doubled that Emirate's area under cultivation and increased production.

Dubai had only 7,500 hectares of cropland in 1973, (compared with 58,700 hectares in Ras-al-Khaimah, 22,500 in Sharjah, and 15,900 in Fujairah). By 1976, Dubai's cultivated area was up to 10,000 hectares. Irrigation facilities in Ras-al-Khaimah and Fujairah have been improved as well.

The traditional crop grown in oasis areas in the UAE has been dates, with the famous Buraumi oasis a center of date cultivation for centuries. This area accounts for about half of the UAE's date production (projected at 32,000 metric tons in 1977).

UAE production of tomatoes in 1976 was about 80,000 tons—quadruple the 1973 level—and may rise to 95,000 tons in 1977. Melon output has tripled in volume since 1973 to 60,000 tons in 1977. Elaborate greenhouses located on Sadiyat Island near Abu Dhabi provide a steady supply of tomatoes, cucumbers, and melons for grocery stands and produce markets in Abu Dhabi.

Cucumbers, eggplant, okra, and green beans are grown extensively in Ras-al-Khaimah and Sharjah for delivery to urban markets. New highways enable farmers to deliver their produce to customers in Dubai and Abu Dhabi more efficiently.

Iran and Lebanon were major suppliers of fresh produce to Dubai and Abu Dhabi in the early 1970's; however, rising domestic demand in Iran and the civil war in Lebanon disrupted shipments. Importers in the UAE turned to India for onions and potatoes in early 1976 and 1977, as traditional arrivals from Mideast suppliers dwindled.

Imports of potatoes from India jumped from 3,000 tons in 1975 to more than 7,500 tons in 1976. Some 10,800 tons of Indian onions were shipped to Dubai in 1975, with additional supplies also exported to Abu Dhabi and Sharjah.

Facilitated by new roads, 12,000 tons of Saudi melons and 10,000 tons of fresh winter vegetables are trucked annually to produce importers in the UAE. □

[1] Abu Dhabi, Dubai, Sharjah, Ras-al-Khaimah, Fujairah, Ajman, and Umm-al-Quiwan.

Mexico's Cotton Crop Reduced

Mexicos' 1977/78 cotton production now is estimated at 1,515,000 bales (480 lb net), a 30,000-bale drop from the previous estimate. Rainfall at harvest and a lack of picking labor are two factors responsible for the decrease. The new estimate is still 51 percent above the 1,005,000 bales produced in 1976/77.

Consumption for 1977/78 is estimated at 750,000 bales, 7 percent above the 1976/77 level. During the first half of 1976/77, approximately 80 percent of the mills operated at 50 percent capacity. At present the textile industry is operating at about 65 percent of capacity.

The Mexican Government recently formed a Federal commission to regulate and assist in foreign sales of cotton. The Government also is attempting to develop the fertilizer industry in order to provide a more reliable source of inputs for crop production. □